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Foreign Economic Trends and Their Implications for the United States

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BURMA

Prepared by American Embassy Rangoon

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BURMA - KEY ECONOMIC INDICATORS*
(In millions of U.S. dollars unless otherwise indicated.
Fiscal years run April 1-March 30)

	1988-89	1989-90	1990-91(P)
DOMESTIC ECONOMY			
Population (millions)	39.30	40.03	40.78
GDP at current prices	10,806	17,789	22,197
Per capita GDP at current prices (US$)	300	444	544
Consumer price index (1986=100)	155.0	191.7	223.4
Money supply (M1, percent change)	37.5	39.1	48.6
PRODUCTION AND EMPLOYMENT			
Employed labor force (in thousands)	16,036	15,221	15,737
GDP at constant (1985-86) prices:			
-- kyat in millions	47,141	48,824	51,539
-- percent change	- 11.4	3.6	5.6
Gov't budget deficit (percent of GDP)	8.3	8.5	13.7
TRADE AND BALANCE OF PAYMENTS			
Exports (f.o.b.)	339.6	411.9	566.1
Imports (c.i.f.)	533.1	506.3	1153.9
Trade balance	-193.6	- 94.4	-587.8
Current account balance	- 94.7	- 6.0	-420.6
External public debt	4,223	4,104	N.A.
Debt service payments	153.8	194.4**	200.4**
Debt service ratio (percent)	45.3	47.2**	35.4**
Foreign exchange reserves	127.3	468.3	281.4
Exchange rate (kayt to US$1):			
--official rate	6.4582	6.7052	6.2232
--open market rate	46	54	62

U.S. - BURMA TRADE	1988	1989	1990
U.S. exports to Burma (f.a.s.)	10.6	4.7	20.1
U.S. imports from Burma (c.v.)	11.6	17.1	22.7
U.S. Bilateral aid (grants)	16.0	11.0	0.04

Principal U.S. Exports (1990): Specialized machinery and parts.
Principal U.S. Imports (1990): Apparel, shellfish, gems and pearls, wood products.

Footnotes: P - preliminary, data available as of November 1991.
* This table is based largely on official Burmese statistics which are subject to substantial later revisions.
** Debt repayments were only partial.

I. SUMMARY

Burma's considerable economic potential continues to lie hidden under the legacy of 26 years of socialist mismanagement. The military government which took power from the Burmese Socialist Program Party (BSPP) in 1988, adopted a policy of opening the country to private sector trade and foreign investment. However, these measures have fallen short of the far-reaching, structural reform needed to effect real economic progress. Lacking this, the economy continues to limp along, unable to attract the volume of foreign investment needed to propel it forward. Political uncertainty stemming from the unpopular regime's failure to transfer power to a democratically elected government further reinforces investor wariness and economic stagnation.

In 1990/91, the Burmese economy was still making a slow recovery from the three-year recession that bottomed out in 1988/89 -- a year of widespread economic and political turbulence. In 1989/90 real GDP grew only 3.6 percent instead of 7.4 percent estimated earlier. The following year growth picked up slightly to 5.6 percent, but total real output was still below the 1986/87 level. Energy shortages were one of the main impediments to stronger growth. Meanwhile public sector spending continued high, pushing the government deficit to $3.0 billion or 13.0 percent of GDP. The expansion of currency was unabated and inflation exceeded 40 percent. Burma's basic external financial position remains weak. The trade deficit widened; foreign debt arrears increased although little new debt was incurred and foreign aid inflows virtually disappeared. The Government of Burma drew down the record level of foreign exchange reserves achieved last year without releasing foreign exchange for badly needed import purchases.

Without additional investment in the country's productive capacity, economic performance will depend on basic factors such as the rice harvest and energy supplies. Good weather during the 1989 and 1990 growing seasons boosted domestic supplies of rice and other crops, but erratic weather in 1991 dampened the prognosis for the 1991/92 harvest. Though food supplies will still be more than adequate for domestic needs, export potential may fall off and inflationary pressures worsen. The near-term energy and foreign exchange outlooks are also dismal. While new foreign oil company exploration activities in Burma may eventually improve the country's energy situation, they will not reduce critical fuel and electricity shortages for several years even under the best of circumstances.

Major new foreign investments outside the energy sector appear unlikely given the highly overvalued currency and extreme shortages of fuel and electricity.

U.S.-Burmese trade is small -- about $43 million last year. With foreign investment allowed only since late 1988, the few U.S. companies active in Burma are essentially limited to those engaged in onshore oil exploration under production sharing contracts, subcontracting in the energy sector, a fishing/processing joint venture, beverage production projects, consulting contracts, and trade. Official relations between the United States and Burma have been cool since the repressive 1988 military takeover, after which the United States and other major donor countries suspended new foreign assistance. Burma has been decertified as eligible for U.S. aid because of ineffective narcotics suppression and has been suspended from the United States Generalized System of Preferences program for worker rights violations. In July 1991, the U.S. Executive Branch responded to an economic sanctions provision approved by Congress in August 1990 by refusing to renew the bilateral textile agreement which expired in December 1990. In anticipation of the lack of an agreement textile imports from Burma to the United States already showed signs of slacking off in the first half of 1991. Any improvement in bilateral relations depends on the Burmese Government's allowing a more representative political process and taking positive action to improve its human rights and narcotics control record.

II. CURRENT ECONOMIC SITUATION AND TRENDS

Background. From 1962 to 1988, Ne Win's "Burmese Way to Socialism" isolated and impoverished the resource rich Burmese economy. Rigid central planning, inefficient state enterprises, deteriorating infrastructure, inadequate investment, chronic trade and budget deficits, and mounting foreign debt were only partly offset by the country's agricultural self-sufficiency and a large and thriving black market. Shortages of fuel and foreign exchange for imports became increasingly serious, weakening nearly every sector of the economy, which fell into recession in 1986/87. Burma's progressive economic decline led, in late 1987, to its being designated by the United Nations as a least-developed country eligible for softer foreign aid terms.

The first major loosening of state economic control in decades occurred in September 1987 when the government opened domestic trade in rice and other grains to the private sector. However, the benefits of this welcome change were undercut by a surprise demonetization of all higher value currency notes, without compensation, which wiped out cash assets and caused a crisis of confidence in the domestic currency that persists to the present.

During 1988, economic developments were shaped by a profound national political crisis. Demands for a more democratic form of government mushroomed into a nationwide general strike and massive street demonstrations in August and September.

Economic activity was at a near standstill for many weeks, and law and order deteriorated following the government's withdrawal of police and security forces. In mid-September the military took direct control, establishing the State Law and Order Restoration Council (SLORC) as the ruling authority. Thousands of unarmed demonstrators were shot, and the SLORC took severely repressive measures against pro-democracy activists. All foreign aid projects in Burma were stopped for some time after the military takeover, and virtually no new foreign aid has been approved since then.

The SLORC addressed Burma's economic problems by declaring an end to socialism and announcing an open door economic policy under which the private sector could engage in most economic activities. A new foreign investment law allowed foreign investments, including wholly foreign-owned ventures, for the first time in decades. Border trade with the People's Republic of China, Thailand, and Bangladesh was legalized. The government has granted foreign companies offshore fishing concessions and logging concessions along the Thai-Burmese border and signed production sharing contracts for onshore and offshore oil exploration by foreign oil companies.

Economic Performance. (NOTE: The Burmese fiscal year runs April 1 to March 31. In studying the Burmese economy it should be kept in mind that official statistics are unreliable and give a misleading picture of the real economic situation. For example, GDP statistics do not cover extensive open market activity, and the highly overvalued official exchange rate exaggerates the dollar values of GDP and per capita income. Furthermore, official data for 1989/90 and 1990/91 are still preliminary and subject to substantial future revision.)

In 1989/90, the Burmese economy began to climb out of recession with an inflation-adjusted GDP growth rate of 3.6 percent. Earlier, more optimistic estimates put the increase at 7.4 percent. The slightly more vigorous 1990/91 5.6 percent growth was still insufficient to raise real GDP to the pre-recession level of four years earlier. Although real consumption in 1989/90 rose 19.5 percent and not the earlier reported 55 percent, according to preliminary government statistics last year it surged 67.3 percent to bring it up to pre-recession levels. Real consumption, following a modest 2.0 percent increase in 1990/91, is still 21 percent less than in 1985/86.

Due to heavy inflationary pressures, nominal or unadjusted GDP for 1990/91 recorded a 15.8 percent increase to kyat 138 billion or $22.2 billion at the official exchange rate. Using this estimate, the per capita income of Burma's 42 million people was $536. The artificial exchange rate greatly inflates the dollar value of per capita income, but official statistics also do not capture the considerable contribution to income of the informal economy.

Production in the key agricultural sector, which represents 40 percent of total GDP, reportedly rose 4.5 percent in 1989/90 and 6.6 percent the following year. Good weather in both years, and farmers' response to the liberalization of agricultural trade enhanced results. Farmers began to expand paddy acreage and to increase production of cash crops such as beans and pulse, jute and sugar cane. However, further agricultural expansion is limited by the lack of fertilizer, irrigation and farm implements.

The performance of other rural sectors in 1990/91 was mixed. A scarcity of feedstuffs continued to limit increases in livestock and poultry production. Recovering slightly from the sharp fall in production in 1989/90, meat, dairy, and other livestock production grew 1 to 2 percent. After registering a record growth in 1989/90, fish production began to level off with a mere 1.3 percent increase. The forestry sector continued strong with an estimated 15.4 percent growth in output. However, the termination of some of the Thai logging concessions this year could lead to a decline in legal fellings.

Burma's small processing and manufacturing sector grew an estimated 4.0 percent in 1990/91 after a 13.7 percent increase the previous year. Fuel, machinery, and materials shortages continued to plague both state and private enterprises, and sectoral production remained 11.5 percent below the level of five years earlier. The many state-owned enterprises could not improve their chronically low capacity utilization, stuck at well below 40 percent. The mining sector's reported growth of 3.1 percent still kept production below that attained prior to the severe disruption suffered during 1988. In the critical energy subsector, crude oil output rose only 0.3 million barrels per day, but increased production from several oil wells should push the current year's production up 8.0 to 10.0 percent. Production of natural gas, which generates about half the country's electricity fell another 10 percent in 1989/90 to put it further behind the 1987/88 peak.

A continuation of the government's projects to widen roads, beautify towns, and develop resettlement areas contributed to a 47.5 percent surge in construction activity. Moreover, over 230 million kyat was spent on a program to build roads, bridges, and public buildings in the border areas of Shan, northern Kachin, and Arakan states. Although the total power sector grew a reported 9.3 percent, a shortage of natural gas caused electric power generation to decline by 16 million kilowat hours. Total installed electric power capacity was increased by 21 megawatts and, accordingly, power lines were extended 507 miles. Power losses were cut from 36 to 30 percent of total generation. Transportation activity, although still hampered by fuel rationing and shortages of vehicles in working condition, recovered to 1987/88 levels. Communications

and administrative services rose very modestly, while financial services rose 13.2 percent after last year's 86.5 percent drop due to the government write-off of the state-owned enterprises' massive domestic debts.

Fiscal and Monetary Developments. With state-owned enterprises dominating almost all economic activities, the government plays a very large role in the Burmese economy. In fact, overall public sector spending has equalled about 46 percent of total GDP over the last three years. In 1990/91 total public sector revenues rose to $7.2 billion, significantly above the targeted level. However, for the second year in a row, expenditures rose enormously, primarily due to massive spending on construction projects. A special supplemental budget law was needed to cover the increase, bringing total public expenditures to $9.3 billion. In particular, capital expenditures more than doubled and were 6.0 billion kyat above the original budget target. The overall government deficit soared to an estimated $3.0 billion or 13 percent of nominal GDP.

Government deficits are financed mainly by borrowing from the state banking system and, ultimately, by printing additional bank notes. Continuing the trend of monetary expansion in which currency in circulation more than tripled during the three years following the September 1987 demonetization, the money supply increased nearly 50 percent in 1990/91. High transportation costs due to shortages of fuel, uncontrolled export of food items through border trade, and the construction boom further aggravated inflation. Although the GDP price deflator rose only 9.7 percent, observed inflation was substantially higher.

The External Sector. According to government data, exports rose 28 percent to $568 million, while imports bounded up 110 percent to $1.158 billion. Forestry products, mainly logs, were the largest single foreign exchange earner (about one-third of total exports), with the remaining legal exports being mostly foodstuffs and other unprocessed goods.

Once Burma's chief export, rice exports were still weak in 1990/91. Though the government maintains a monopoly on external rice trade, illegal rice exports outside government control are probably nearly equal to legal sales. On the import side the majority of goods were probably capital equipment plus light consumer goods from neighboring countries. Burma's chief export markets were China, India, and Thailand, while its most important import sources were Japan and China. Although official statistics now capture the previously illegal border trade, much of Burma's trade with neighboring countries does not flow across official crossing points and thus goes unrecorded. Illegal and undocumented exports of narcotics (Burma is the world's largest opium producer), gems, and jade were substantial.

Burma's chronic trade deficit persisted and in fact worsened to a reported $590 million in 1990/91. In an attempt to balance trade and control the use of scarce foreign exchange, the government has begun to require importers to export more than they import (unless engaged in barter or countertrade) and has stipulated that 25 percent of exports be used for import of items deemed high priority for the economy. Moreover, stricter rules have been put into effect for border trade to reverse a perceived worsening of terms of trade for the Burmese side. However, Burma has not changed the trade-distorting highly overvalued official exchange rate -- in late 1991 6.2 kyat per U.S. dollar versus about 100 to 1 on the open market. The complexities arising from the artificial exchange rate, the lack of foreign exchange, and the new regulations favor the use of barter and countertrade.

Burmese authorities estimated Burma's total foreign debt at the beginning of 1991 at $4.2 billion (long term, disbursed). Although most of the debt is highly concessionary, Burma's weak trade position made debt servicing difficult and arrears began to build up in 1988. Total arrears reached roughly $300 million at the end of 1989 and have grown further since. The record $560 million foreign exchange reserves reached in early 1990 had by May 1991 fallen to $260.4 million. Saddled with a large trade deficit, heavy arrears, with little foreign aid inflows in sight, Burma's external financial position at the end of 1990/91 remained weak.

Outlook for 1991/92 and Beyond. The process of economic liberalization in Burma has so far been largely ad hoc. Presenting itself as a temporary government, the military regime has not developed an overall economic policy package or longer term development plan. Though the government has proclaimed 1991 as the year of the economy, it has given little sign that it intends to implement needed reforms. Official statements in the past few months indicate that the military intends to stay in power for five to ten years. The government's failure to respect the election results which gave the opposition an overwhelming victory, curb serious human rights violations, address its bilateral debt arrears, or adopt essential economic reforms precludes multilateral action on debt restructuring and foreign aid resumption. Absent political stability, renewed foreign assistance and further economic reforms, significant economic progress does not appear likely.

In the near term, Burma's economic fortunes will depend on more immediate factors -- chiefly the availability of rice, energy and foreign exchange. Rice, the staple food and by far the country's most important crop, was plentiful in 1991 after a record harvest due to excellent weather. However, flooding in the southern delta area and drought in the central zone is expected to depress the 1992 rice harvest. However, even if the most pessimistic forecast is realized, the crop will be more than adequate for domestic needs and reserve stocks in

government and private hands are still ample. Rice prices have rose substantially in late 1991, but were expected to have softened again when the new crop came to market by the first of the year. In order to prevent political instability arising from greatly increased rice prices, the government is pursuing a very conservative export policy. Even under ideal weather circumstances, very limited irrigation, rural investment, fertilizers, and other inputs, will limit an expansion of agricultural output. The government has indicated that it is considering policy changes aimed at attracting capital investment from domestic and foreign sources into the agricultural sector.

The domestic energy situation worsened further in 1991. Gasoline rationing continued, natural gas output fell, and formerly energy self-sufficient Burma imported crude oil for the fourth year in a row. While Burma's long-term energy outlook could be immensely improved if foreign companies strike oil, the long lead times to actual production promise no relief from severe energy shortages for several years. Inadequate fuel and electricity raise costs, hamper production and commerce across the board, and present major obstacles to new investment.

SLORC policies affecting trade have not dealt with the country's severe foreign exchange constraints, which limit badly needed imports for most sectors of the economy. Adherence to the official exchange rate will perpetuate trade distortions and discourage capital inflows from foreign investment. As the SLORC does not appear prepared to address the concerns of foreign donors, foreign aid inflows -- which formerly financed the bulk of the country's imports -- are likely to continue shrinking.

On other economic fronts, heavy deficit spending will probably persist. Changes in tax provisions and duties from higher legal trade flows may raise revenues to some extent, but factors that could restrain expenditures by the huge state sector are not apparent. With government deficits financed mainly by printing money, inadequate fiscal restraint will provide continued inflationary pressure. Except for rice and other food crops, Burma remains an economy of scarcity subject to strong price pressures. (With no wage indexation and no labor unions, wages are not an inflationary factor except when sporadic government raises are awarded.)

III. IMPLICATIONS FOR THE UNITED STATES

Bilateral Relations. Since the September 1988 military takeover, relations between the United States have been cool due to U.S. criticism of the military regime's serious human rights abuses and political repression. In late 1988, the United States suspended all non-humanitarian aid to Burma and, in March 1989, decided not to certify Burma as eligible for

U.S. foreign assistance on the grounds of Burma's failure to cooperate on anti-narcotics matters. In April 1989, the United States suspended Burma's eligibility for duty-free export to the U.S. market under the Generalized System of Preferences (GSP) program because of the lack of internationally recognized worker rights in the country. In July 1991, in compliance with a provision of the 1990 Customs and Trade Act calling for economic sanctions against Burma, the Administration decided not to renew the bilateral textile agreement which expired at the end of 1990.

The U.S. Government hopes for an early resolution of strains in the bilateral relationship and a return to closer relations that would benefit both countries. Progress toward the formation of a government which meets the Burmese people's aspirations for democracy, the restoration of basic human rights, and meaningful cooperation in drug eradication efforts would permit a resumption of friendly bilateral ties.

Outlook for U.S. Business. U.S. exports to Burma rose dramatically in 1990 to $20.1 million from $4.7 million in 1989. In the first six months of 1991 U.S. exports had already reached $20.9 million, as compared with $8.9 million for the same period of 1990. Much of this improvement is related to foreign oil exploration activity. Beyond the oil sector, near-term prospects for U.S. exports remain limited mainly by the restricted availability of foreign exchange for import purchases. Local private sector entities have no foreign exchange except what they can earn by exporting, and state-owned enterprises depend on scarce foreign exchange allocations from the central government.

The opening up of the energy sector to foreign oil company exploration presents opportunities for subcontracting of a wide range of supplies, support, and technical services. Potential U.S. suppliers of goods and services for oil and gas exploration and development should contact concession companies and the Myanma Oil and Gas Enterprise directly to inquire about possible sales.

Other prospects for U.S. export sales in the near term are through open competitive tenders for Burmese Government procurement of equipment, supplies and consulting services -- especially those associated with projects funded by the Asian Development Bank, International Development Association (a World Bank affiliate), and the United Nations Development Program. However, as aid agencies and multilateral development banks have ceased assistance to Burma, new opportunities are dwindling. Tenders are reported by the Embassy and published by the U.S. Department of Commerce in the "Economic Bulletin Board" and the "Commerce Business Daily". The district offices of the Commerce Department also receive daily leads and have them on file for the public. Because of the tight foreign exchange situation, state enterprises and the private sector

are very interested in countertrade deals, and proposals of this type would be seriously considered.

On the import side, U.S. imports from Burma rose to $22.7 million in 1989 (largely apparel, shellfish, gems and pearls, and wood products), but in the first six months of 1991 ($14.3) were trailing the same period last year ($15.1). The denial of GSP benefits to Burmese products has not affected most U.S. imports -- Burmese goods entering the United States under the GSP program in 1988 were valued at less than $250,000. Although the Administration's decision not to renew the bilateral textile agreement does not prohibit exports from Burma, by removing quotas and making Burmese textile sales to the U.S. subject to an unnegotiated freeze, it may have a depressing effect on U.S. textiles imports from Burma. Importers of Burmese goods should also be aware that the U.S. Customs Service requires that the name "Burma" be used for the purpose of identifying country of origin on U.S. Customs forms.

Burma's new laws on foreign investment provide potentially broad scope for U.S. investment. Foreign investment may be wholly foreign-owned or -- with minimum 35 percent foreign ownership -- be in joint ventures with local private companies, state-private sector joint venture corporations, or state-owned economic enterprises. In certain sectors, such as oil and gas or metal mining, a foreign investment must take the form of a joint venture with a state-owned enterprise. The Burmese Government is also reportedly drafting new regulations which will ease foreign investment in mining and agriculture. Buy-back arrangements are another option; many existing and underutilized production facilities could be upgraded by a foreign partner to produce for export on a buy-back basis.

Foreign investors are generally required to pay local staff salaries, rents, telephone and utility charges in foreign currency. Foreign currency conversions to pay kyat-denominated local expenses must be made at the official exchange rate, which is grossly overvalued and inflates the total cost of doing business in Burma. With the exception of production sharing contracts in the energy sector, most ongoing foreign company activities involve fishing or logging concessions, and buy-back or trade-based ventures.

Assistance to U.S. Business. Country specialists for Burma in the Departments of Commerce and State in Washington are valuable initial sources of information on business conditions and possibilities. Interested U.S. companies may also correspond directly with the Commercial Attache of the U.S. Embassy in Rangoon (Yangon) (Box B, APO AP 96546; telex: 21230 AMBYGN BM). The Commercial Section can assist U.S. companies in the tender process by purchasing and forwarding government tender documents on request to help U.S. firms meet the short deadlines generally given. Business visas should in most cases be arranged directly through Burmese Government agencies or companies, but the Commercial Section will attempt to assist as

needed. Visitors to Burma are welcome to contact the Commercial Section, which will arrange meetings with appropriate Embassy personnel to discuss local conditions and the visitors' business interests. U.S. firms wishing to promote their products in Burma can participate in trade promotion events held in Rangoon and should contact the nearest district office of the Department of Commerce for information.

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